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BOARD APPROVED FOREX EXCHANGE RISK MANGEMENT POLICY

EASTERN LOGICA INFOWAY LIMITED

In view of the fact that the Company has dealings in foreign currency for imports, exports, foreign exchange loans, etc. coupled with the fact that the forex market has been quite volatile, it is important that the Company lays down a broad framework for proactive Forex Risk management. Apart from that, the RBI also requires that each Company's Board should approve a Forex Hedge Policy and institutionalize a framework to review the implementation of the Policy.

RBI, vide its circular dated November 2, 2011, had modified the Comprehensive Guidelines on Derivatives. These guidelines are applicable to all permitted generic and structured derivative products except forward contracts which shall continue to be governed by Circular AD (DIR) 32 dated 28.12.2010. It has made it compulsory for banks to ask its corporate clients dealing in all permitted generic and structured derivatives to furnish a board resolution in a specific format on its Risk Management Policy whereby the Board confirms that the Company has a Risk Management Policy which contains the following:

- Guidelines of risk identification, measurement, reporting and control.
- Guidelines and procedures to be followed with respect to revaluations and monitoring of positions including MTM (Mark to Market)
- Designation of officials authorized to undertake transactions and limits per transactions assigned to them and a requirement that the assignment of limits to an official would be on per transaction basis.
- A requirement to ensure separation of duties between front, middle and back office.
- Mechanism regarding reporting of data to the Board including financial position of transaction etc.

Objectives:

The objective of this policy is to provide an overarching framework for managing the cash flow risks associated with Foreign exchange and Interest rate exposures of the company. Specifically the policy aims to:

- a. On the '**operational**' side [cash flows arising from regular import and export transactions], minimize the impact of adverse fluctuations in the foreign currency rates on the cash flows;
- b. Pre-shipment and post-shipment credits in foreign currency or any short term loan from banks;

Exchange Rate Risk

- a. Foreign exchange **transaction risk** is the risk that the company's cash flows will be adversely affected by movements in exchange rates that will increase the value of foreign currency payables, or will diminish the value of foreign currency receivables.
- b. Foreign exchange **translation risk** relates to the effect of currency movements on the value of a company's assets and liabilities denominated in foreign currencies when those values are translated into the functional currency of the company for accounting purposes.
- c. Foreign exchange **economic risk** related to the effect of currency movements on the domestic revenues and cost components which are linked to global price movements.

For the purpose of this policy, Foreign Currency is defined as any currency that is denominated other than in Indian Rupees.

Identification of Foreign Exchange Exposure

An Exposure can be defined as a Contracted or Projected Cash Flow whose magnitude in Indian Rupees is not certain at the moment the transaction is entered into. The company has foreign currency exposures on account of following items:

a. Trade operations

- i. Export
- ii. Imports
- iii. Other foreign currency receivable/payables like quality claims, commission etc.
- iv. Supplier's credit / Buyers credit in foreign exchange.

b. Short term exposures

- i. Foreign currency short term loans in form of FCNR(B), PCFC
- ii. Short term bridge loans denominated in foreign currency
- iii. Foreign exchange debt Principal and interest repayments due within 1 year

c. Long term liabilities

- i. Long term foreign currency liabilities for project expenditure
- ii. Payments due against imported capital equipment for projects.

Export Receivables

The inception of exchange fluctuation risk on foreign currency receivables happens the moment export marketing department confirms the contract with a customer at an underlying rate foreign currency conversion rate used for pricing that contract.

For the purposes of identifying the exposures, the export receivables need to be segregated into two parts:

a. Actual/Confirmed receivables: These receivables relate to export orders already committed for which shipment has either already happened or yet to happen. As a result of which, the tentative date of receipt is almost certain based upon the shipment schedule and credit terms.

b. Forecasted receivables: These receivables are based upon the company's sales budget and the dispatch plans.

For the purposes of this policy only Actual/Confirmed receivables will be hedged using permitted hedging instruments.

Import payables:

The inception of exchange fluctuation risk on foreign currency payables happens the moment purchase department confirms the purchase contract with supplier at an underlying foreign currency conversion rate used for pricing that contract. For the purposes of identifying the exposures, the import payables need to be segregated into two parts:

a. Actual/Confirmed payables: These receivables relate to import orders already committed for which shipment has either already happened or yet to happen. As a result of which, the tentative date of payment is almost certain based upon the shipment schedule and credit terms.

b. Forecasted payables: These payables are based upon the company's procurement budget in line with the dispatch plans.

For the purposes of this policy only Actual/Confirmed payables will be hedged using permitted hedging instruments.

Management of Exposure

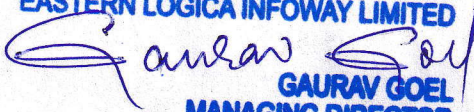
It is prudent to follow hedging of exposures to minimize the negative impact of exchange risk on cash flow and profitability of the company. The overall hedging of exposures shall be governed by following risk management parameters:

- All exports and imports on trade account are to be hedged using a forward cover. The Company is risk averse in the short term and would seek to protect margins by removing the variability related to currency fluctuations.
- Imports of capital equipment will be financed either by way of Buyers Credit (initially for a period of 6 months, extendable subject to credit availability to a period of 3 years) or by way of Long Term Loans. Where the financing is by way of a short term Buyers Credit, such imports will be covered by a forward cover. Where, however, such imports are financed by a confirmed long term Buyers Credit or by way of a Long Term Loan, such exposure will be covered by means of an Option contract.
- Similarly, other Long term foreign currency liabilities (such as an ECB for eg.) will be covered by Option contracts.

Trading in currency derivatives is completely prohibited under the Company policy – the aim of this policy is to secure protection against possible currency fluctuations and there is no intent to seek gains out of currency fluctuations. Communication with banks and foreign exchange dealers in connection with obtaining quotes, confirming forward covers or options will follow the protocol laid down in Board Resolutions (as modified from time to time) in this regard. Quarterly disclosure of covered exposures will be made to the Board.

FOREX RISK MANAGEMENT – DELIGATION OF AUTHORITY

The Board, after approving the Forex Risk Policy, is empowered to delegate the monitoring and review of the policy to Audit Committee. The Board shall review the Forex Risk Management on an annual basis. Any modification to this Policy shall be effective on the recommendation of the Audit Committee and approval of the Board.

EASTERN LOGICA INFOWAY LIMITED

GAURAV GOEL
MANAGING DIRECTOR
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